

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 IO-14 ACDA-19 CIAE-00 DODE-00 PM-07

H-03 INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01

SP-03 SS-20 USIA-15 AID-20 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

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C O N F I D E N T I A L SEOUL 3644

E.O. 11652: GDS

TAGS: EFIN PINT KS

SUBJECT: ROKG TAKES MEASURES AGAINST BIG BUSINESS GROUPS

REF: A SEOUL 2841

B SEOUL A-128

SUMMARY: FOR MIXED POLITICAL AND ECONOMIC REASONS
ROKG HAS ANNOUNCED MEASURES TO FORCE INCREASED PUBLIC
OWNERSHIP AND FINANCIAL CONTROL OF LARGE BUSINESS GROUPS.
BECAUSE MEASURES WILL TAKE TIME TO IMPLEMENT AND BIG
BUSINESS GROUPS HAVE WIDE VARIETY OF MEANS TO RESIST
THEM, ACTUAL RESULTS ARE DIFFICULT TO PREDICT AT THIS
TIME. END SUMMARY.

1. FGQLOWING A MAY 29 GENERAL DIRECTIVE BY PRESIDENT
PARK, THE ROKG HAS ANNOUNCED A SERIES OF MEASURES TO
INCUREASE PUBLIC OWNERSHIP AND IMPROVE THE FINANCIAL CON-

DITIONS OF KOREA'S LARGE CONGLOMERATE COMPANIES
(FAMILY-OWNED GROUPS OF FIRMS, WHICH APPARENTLY
ACCOUNT FOR ABOUT HALF OF TOTAL INDUSTRIAL PRO-
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DUCTION). MINISTER OF FINANCE NAM HAS STATED THAT

30 OF 68 BUSINESS GROUPS OWING BANKS 5 BILLION WON (DOLS 12.5 MILLION) OR MORE ARE IN POOR FINANCIAL CONDITION AND MUST, BY SEPTEMBER 30, SUBMIT 3-YEAR PLANS TO INCREASE PUBLIC OWNERSHIP AND FINANCING, REDUCE BANK LOANS AND HIGH DEBT-EQUITY RATIOS, ELIMINATE PERIPHERAL OPERATIONS (SUCH AS GOLF COURSES) AND CONSOLIDATE THEIR REMAINING HOLDINGS INTO A SOUND CORPORATE STRUCTURE THAT WILL FACILITATE NEW STOCK FLOTATIONS AND FOREIGN BORROWING AND INVESTMENT. THE REMAINING, SOUND GROUPS ARE TO SUBMIT BY SEPTEMBER 30 PLANS TO GO PUBLIC AS SOON AS POSSIBLE. (FOREIGN-INVESTED FIRMS WILL NOT BE AFFECTED). LOANS TO ALL LARGE GROUPS WILL NOW BE CLOSELY CONTROLLED AND COORDINATED THROUGH EXCHANGE OF BANK INFORMATION, AND TAXES WILL SUPPOSEDLY BE STRICTLY ENFORCED, PARTLY AS A RESULT OF A NATIONWIDE SURVEY OF CONGLOMERATE HOLDINGS.

2. WHILE PART OF ONGOING, LONG-TERM PLANS TO SECURE MORE EQUITY FINANCING OF NEW INVESTMENT AND TO UPGRADE KOREAN FIRMS AS CANDIDATES FOR FOREIGN INVESTMENT AND LOANS, THIS DEVELOPMENT HAS ITS IMMEDIATE ORIGIN IN THE RECENT 7.4 BILLION WON BANK SCANDAL (REFS A AND B) AND THE ATTEMPT OF THE NDP OPPOSITION PARTY TO CAPITALIZE ON THIS INCIDENT BY DEMANDING (A) THE RESIGNATION OF FINANCE MINISTER NAM AND OTHERS AND (B) VARIOUS REFORMS OF THE BANKING SYSTEM, INCLUDING THE END OF QTE FAVORITISM TO BIG BUSINESS TYCOONS UNQTE BY THE 5 GOVERNMENT-CONTROLLED COMMERCIAL BANKS, WHICH THEMSELVES ARE RECOMMENDED FOR TRANSFER TO PRIVATE CONTROL. (MOF SOURCES INDICATE THAT THE 68 LARGE GROUPS WITH LARGE TOTAL LOANS ACCOUNT FOR ABOUT HALF OF ALL CREDIT EXTENDED BY THE 5 BANKS.) THE NEW GOVERNMENT PLANS WERE ANNOUNCED JUST PRIOR TO THE RELEASE BY THE NDP ON JUNE 4 OF LEGISLATIVE PROPOSALS PREPARED BY NDP MEMBERS OF THE NATIONAL ASSEMBLY FINANCE COMMITTEE, FOR PRESENTATION TO SPECIAL ASSEMBLY SESSION EXPECTED (BUT NOT CONFIRMED) TO CONVENE IN JULY.

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3. COMMENT: THE IMPETUS FOR THE GOVERNMENT'S MOVE STEMS FROM A DESIRE TO TAKE THE POLITICAL INITIATIVE AWAY FROM THE NDP ON A SENSITIVE PUBLIC ISSUE. THE MEASURES ALSO HAVE A SOAK-THE-RICH (OR CONTROL-THE-RICH) THEME SIMILAR TO THE JANUARY 14 QTE EMERGENCY ECONOMIC MEASURES UNQTE FOR DEALING WITH INFLATION. HOWEVER, THE MEASURES

THEMSELVES REPRESENT THE LONG-STANDING DESIRES OF FINANCE MINISTER NAM, WHO HAS WANTED TO CORRECT THE FAVORITISM, CORRUPTION AND INEFFICIENCY IN THE OPERATIONS OF THE 5 GOVERNMENT-CONTROLLED BANKS (WHICH HE PERSONALLY WOULD LIKE TO SEE IN PRIVATE HANDS). NAM HAS ALSO BEEN TRYING TO CREATE AN EFFICIENT STOCK MARKET FOR NEARLY TWO YEARS BUT HAS HAD ONLY LIMITED SUCCESS IN GETTING LARGE FIRMS TO GO TRULY PUBLIC. (MOST HAVE ONLY DISTRIBUTED STOCK AMONG RELATIVES AND CLOSE FRIENDS.) THUS, WHILE NAM IS PUBLICLY VIEWED AS TAKING DEFENSIVE MEASURES TO PREEMPT THE OPPOSITION AND SAVE HIS POSITION AS MINISTER. HE IS ALSO USING THE OPPORTUNITY TO CARRY OUT SPECIFIC, SWEEPING REFORMS WITH PRESIDENTIAL BACKING.

4. BECAUSE KOREA'S LARGE BUSINESS GROUPS HAVE ALWAYS HAD CONSIDERABLE INFLUENCE WITHIN THE ROKG AND ABILITY TO CORRUPT OFFICIALS, AND BECAUSE NAM'S MEASURES WILL DEPEND SO HEAVILY ON THE ADMINISTRATION OF IMPLEMENTING MEASURES OVER TIME, IT IS DIFFICULT TO PREDICT JUST HOW EFFECTIVE THEY WILL PROVE. BUSINESS GROUPS HAVE ALREADY MADE COUNTER-PROPOSALS TO DELAY OR DILUTE THE ANNOUNCED MOF MEASURES. MOST EMBASSY CONTACTS OUTSIDE MOF ARE CYNICAL RE SIGNIFICANT CHANGES, CITING THE POLITICAL MOTIVATION OF THE MEASURES AND THE POLITICAL STRENGTH OF BIG BUSINESS. IN ANY CASE IMPLEMENTATION WILL BE DIFFICULT AND TIME-CONSUMING. IN ADDITION TO BUSINESS RESISTANCE AND USE OF SUBTERFUGES AND CORRUPTION, THERE ARE HARD ECONOMIC PROBLEMS INVOLVED, SUCH AS CREATING PUBLIC CONFIDENTIAL

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DEMAND FOR THE MASSIVE AMOUNT OF NEW SECURITIES THAT ARE SUPPOSEDLY TO BE OFFERED.
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